



# Compliance, Risk & Cybersecurity

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**John Rakowski**  
*Managing Director*

[Email John](#)  
+1 (703) 672-3106



**Jim McCabe**  
*Director*

[Email Jim](#)  
+1 (703) 672-3112

## The High Cost of Moral Hazard: Cybersecurity Insurance

*Cybersecurity insurance often seems like a relatively inexpensive way to mitigate potential breach damages without shelling out for prevention – but the insurers know better.*

In 1666, one of the emerging commercial cities of Europe was engulfed in a fire that raged for five days and destroyed more than 85% of the city's inhabitants. Though the official (and disputed) death toll was very small, the destruction of the city's residential and public buildings was catastrophic, causing widespread displacement of the city population and an estimated \$2.2 billion in damages (in 2019 USD). This tragedy and devastation, coupled with the growing financial sophistication of England's economy in the Enlightenment Period, sparked the modern insurance industry. In the ensuing decades, coffeehouses like that of Edward Lloyd became gathering places for merchants, speculators and investors, and eventually spawned such institutions as Lloyd's of London.

Over time, the insurance industry has become synonymous with the practice of managing risk, through actuarial precision and the adoption of sophisticated data analysis. The better the data, the more accurate and profitable the insurance industry can be, and the more value it creates for its customers, who rely on financially sound and stable insurers in the event of a claim. Though insurance risk premiums vary from customer to customer, insurance providers ultimately rely on well-understood data models to guide stability in pricing.

This raises the question: What is to make of the cyber insurance market over the past couple of years? **Continued in our Sector Spotlight on Page 2.**

## A Closer Look at the Cybersecurity Maturity Model Certification

It is no secret public sector cybersecurity protocols have been at the center of much debate across the nation's capital in recent years. With Clearsight headquartered just outside of DC, we are attuned to the changes taking place in these federally mandated compliance initiatives and beginning to recognize their impacts on our industry sectors of focus. For one, we have been entering into more discussions centered around Cybersecurity Maturity Model Certification (CMMC).

First instigated by the Department of Defense (DoD) in November 2020, CMMC is a framework that assesses a company's cybersecurity implementation practices and maturity processes to ensure government information is adequately protected. While the current ruling applies mostly to a few prime defense contractors, all defense contracts will need to comply with CMMC by October 2025. Notably, this includes professional services firms and MSPs/MSSPs providing consulting and tech-enabled services to the DoD.

» **Read More**

*Source: A.M. Best Company, Insurance Journal, Office of the Under Secretary of Defense for Acquisition & Sustainment*

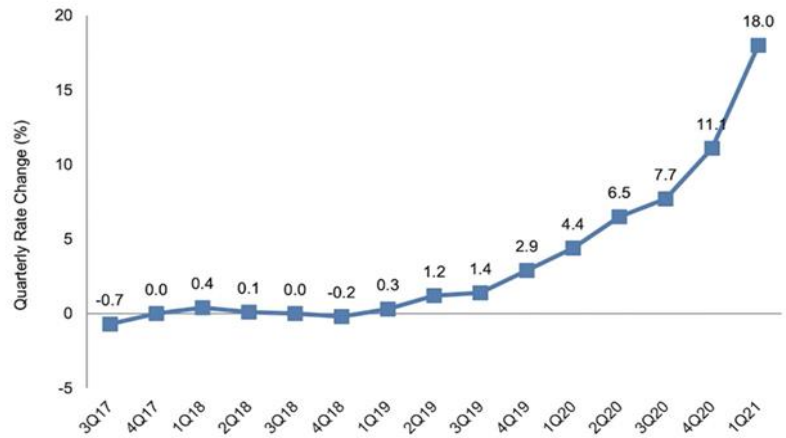
# Sector Spotlight: Cybersecurity Insurance

## The Price is Wrong

Industry analyst AM Best has tracked the rise in cyber insurance premiums over time, and has identified a significant shift in premium costs across the board:

A quick glance at the headlines may suggest the obvious explanation for the accelerated increases in premiums over the past eight quarters. Insurance companies are feeling the impact of the many ransomware attacks that have beset companies in all industries as hackers across the globe exploit cybersecurity weaknesses. The losses from hacking, ransomware, phishing and other mechanisms have mounted significantly, while insurance companies take higher losses and scramble to catch up with rapidly increasing premiums.

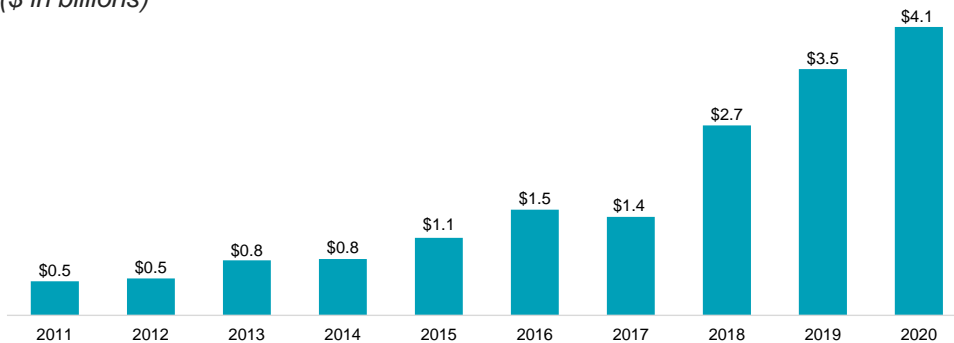
US P/C Industry – Cyber Rate Changes by Quarter



Source: CIAB

## Total Reported Cyber Attack Costs are Rising Worldwide

(\$ in billions)



For those seeking coverage, increased costs are only a part of the problem they face. The cyber insurance industry has seen loss ratios (losses on claims as a percentage of premiums earned) rise to 73% in 2020, up from an average of 42% in the previous five years. As the attacks and losses mount, insurers will seek to limit damages through closer scrutiny of the protection measures and compliance standards that claimants employ. Underwriting will require mandatory certifications that might once have been seen as “nice to have.”

For some, this may include requiring adherence to a standard such as the Department of Defense's [Cybersecurity Maturity Model Certification \(CMMC\)](#) – providing a roadmap for creating and maintaining a strict adherence to specific criteria for successful claims. Other standards may apply to different industries and companies of varying size, but stricter underwriting guidelines will be “de rigueur” for those who would otherwise push the cost of their oversight onto the insurance industry.

## The Buck Stops Here

The insurance industry has dealt with the problem of moral hazard since its inception. Once the costs of risk-taking are passed to a third party, some may conclude that the expense of protection against predictable risks, as well as compliance with relevant laws and regulations, is more nuisance than necessity. However, there are reasons institutions such as Lloyd's of London have thrived for over four centuries. Insurers are not in the business of taking substantial losses due to the negligence of their clientele, and only those companies with a demonstrated (and auditable) commitment to risk management and compliance will remain protected against unforeseeable circumstances. We expect these insurance requirements will lead to further investments in compliance and risk management technologies and services – particularly in the external cyber consulting and managed security services spaces. The most sought-after companies for acquisition will be those able to effectively mitigate the steepest costs of the seemingly inevitable data breaches their clients may face. For those who merely bury their heads in the sand and pretend not to see the danger, the hazards they encounter will be faced alone.

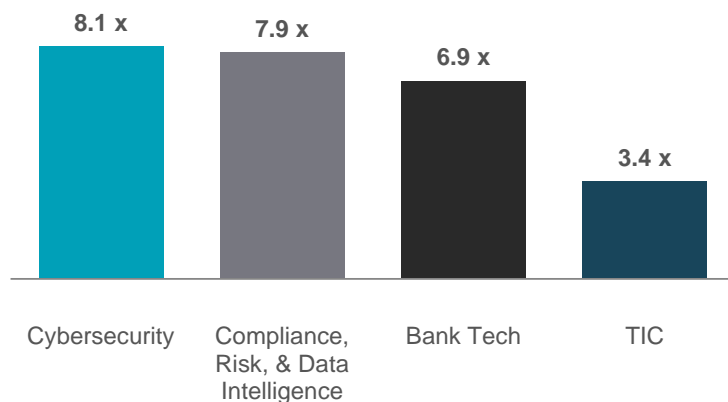
Source: A.M. Best Company, Council of Insurance Agents & Brokers, Insurance Journal, FBI Annual Internet Crime Report

# Public Market Performance

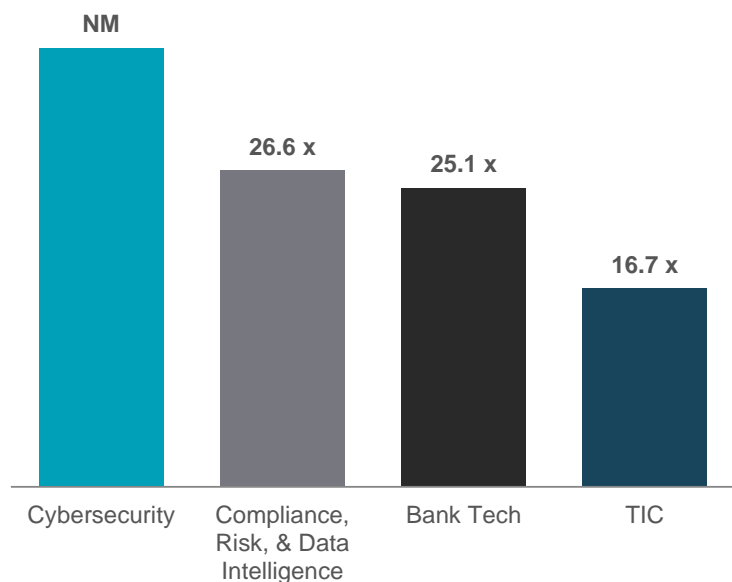
## LTM EV / Revenue



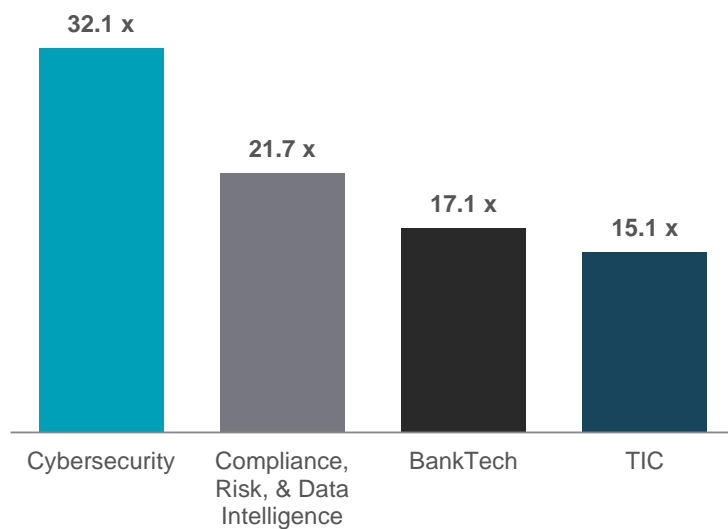
## 2021E EV / Revenue



## LTM EV / EBITDA



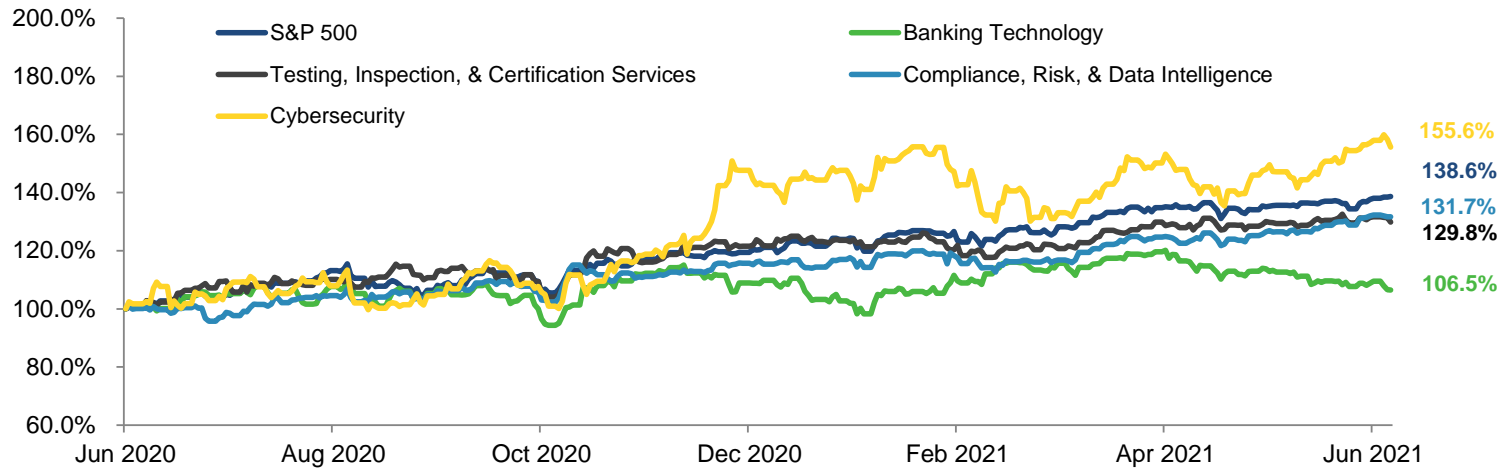
## 2021E EV / EBITDA



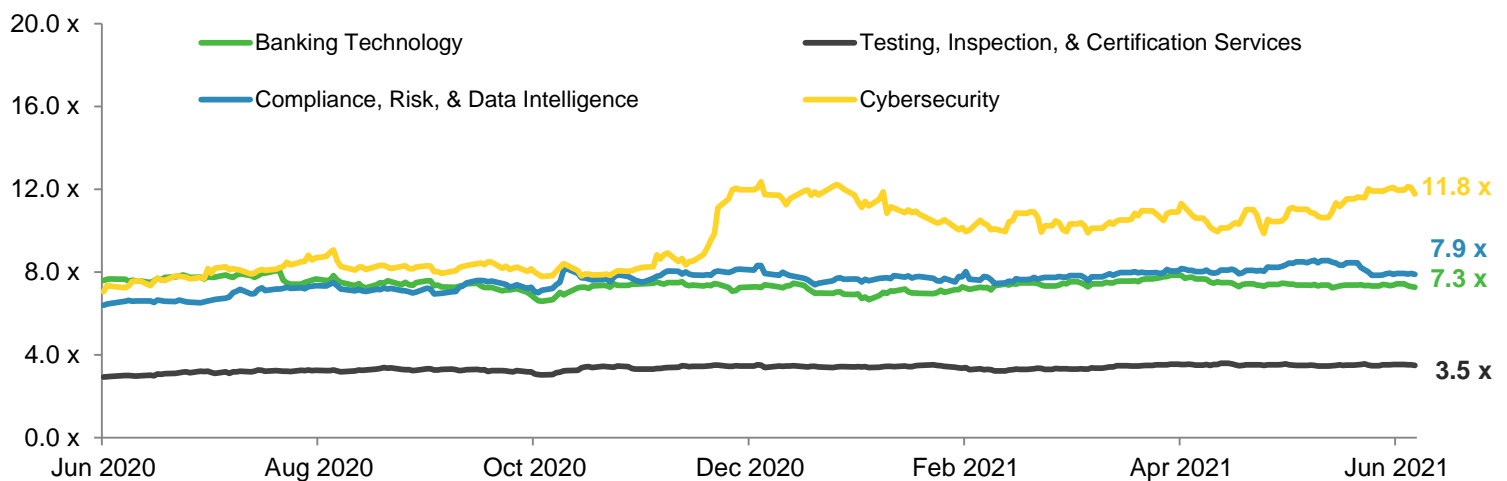
Source: Capital IQ, market data as of 17-Jul-2021

# Public Market Performance

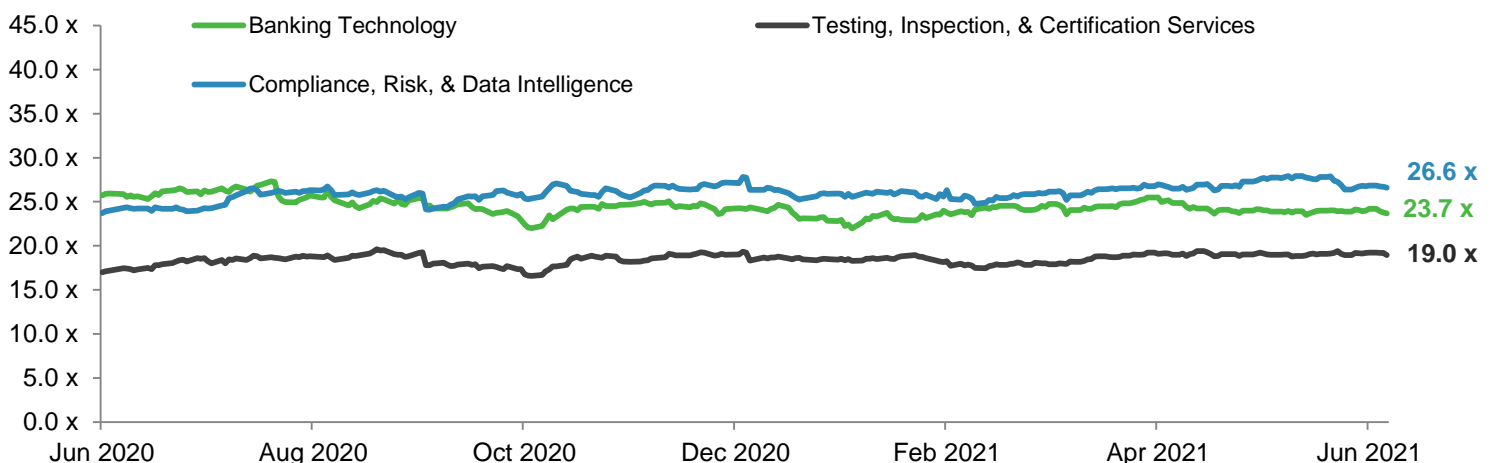
## Compliance Market Indices Performance – 1 Year



## LTM EV / Revenue Multiple Trend – 3 Years



## LTM EV / EBITDA Multiple Trend – 3 Years



Source: Public filings as of 17-Jul-2021, Capital IQ

Note: Multiples charts may differ from Comparable Company Analysis figures due to detailed adjustments made to the Comparable Company Analysis.

# Public Market Performance

## Banking Technology Index

	Closing Price	% of 52 Week High	Equity Market Cap	Enterprise Value	EV / Revenue Multiples			EV / EBITDA Multiples			2021E Revenue Growth	2021E EBITDA Margin
	30-Jun-2021				LTM	2021P	2022P	LTM	2021P	2022P		
Banking Technology												
Fidelity	\$141.67	90.4%	\$88,959	\$105,011	8.3x	7.7x	7.1x	24.8x	17.1x	15.3x	8.9%	44.8%
Fiserv	106.89	83.9%	72,479	93,463	6.1	5.9	5.5	17.2	14.7	13.4	6.0%	39.9%
Jack Henry & Associates	163.51	81.4%	12,181	12,494	7.3	6.9	6.4	27.8	21.2	19.7	5.7%	32.3%
	High	90.4%	\$88,959	\$105,011	8.3x	7.7x	7.1x	27.8x	21.2x	19.7x	8.9%	44.8%
	Median	83.9%	72,479	93,463	7.3	6.9	6.4	24.8	17.1	15.3	6.0%	39.9%
	Mean	85.2%	57,873	70,323	7.2	6.8	6.3	23.3	17.7	16.1	6.9%	39.0%
	Low	81.4%	12,181	12,494	6.1	5.9	5.5	17.2	14.7	13.4	5.7%	32.3%

## Compliance, Risk, and Data Intelligence Index

	Closing Price	% of 52 Week High	Equity Market Cap	Enterprise Value	EV / Revenue Multiples			EV / EBITDA Multiples			2021E Revenue Growth	2021E EBITDA Margin
	30-Jun-21				LTM	2021P	2022P	LTM	2021P	2022P		
					Compliance, Risk, & Data Intelligence							
Thomson Reuters	\$99.38	100.0%	\$49,360	\$50,644	8.4x	8.1x	7.8x	35.0x	26.1x	22.7x	4.3%	31.1%
Wolters Kluwer	100.45	99.3%	26,547	29,038	5.2	5.3	5.1	17.6	17.2	16.4	NA	30.6%
Avalara	161.80	87.3%	14,666	14,090	26.0	21.6	17.6	NM	NM	NM	33.4%	1.1%
RELX PLC	26.50	97.9%	51,079	60,796	6.3	6.0	5.6	21.0	16.3	14.7	3.3%	36.8%
Workiva	111.33	96.3%	6,060	5,847	15.8	13.9	12.0	NM	NM	NM	20.4%	NA
GB Group	11.40	82.6%	2,276	2,253	7.5	7.6	7.1	33.3	30.1	28.4	2.0%	25.4%
	High	100.0%	\$51,079	\$60,796	26.0x	21.6x	17.6x	35.0x	30.1x	28.4x	33.4%	36.8%
	Median	97.1%	20,607	21,564	7.9	7.9	7.5	27.2	21.7	19.6	4.3%	30.6%
	Mean	93.9%	24,998	27,111	11.5	10.4	9.2	26.8	22.4	20.6	12.7%	25.0%
	Low	82.6%	2,276	2,253	5.2	5.3	5.1	17.6	16.3	14.7	2.0%	1.1%

Source: Capital IQ, equity research reports, market data as of 28-Jul-2021

Notes: \$ in millions (except share price), any negative multiples or multiples greater than 35.0x are marked "NM", any negative margin trends are marked "NA"

Multiples may differ slightly from Pg. 4 due to detailed adjustments

# Public Market Performance

## Cybersecurity Index

	Closing Price	% of 52 Week High	Equity Market Cap	Enterprise Value	EV / Revenue Multiples			EV / EBITDA Multiples			2021E Revenue Growth	2021E EBITDA Margin
	30-Jun-21				LTM	2021P	2022P	LTM	2021P	2022P		
Cybersecurity												
FireEye, Inc.	\$20.22	79.2%	\$4,802	\$4,947	5.1x	4.8x	4.5x	NM	30.1x	28.0x	9.4%	16.1%
Fortinet, Inc.	238.19	96.3%	40,276	38,383	14.1	12.3	10.6	NM	NM	NM	20.5%	28.7%
Okta, Inc.	244.68	83.2%	40,237	39,492	NM	NM	23.4	NM	NM	NM	48.6%	NM
Palo Alto Networks, Inc.	371.05	92.1%	36,508	37,071	9.3	8.1	6.8	NM	34.1	29.0	22.7%	23.6%
Rapid7, Inc.	94.63	95.6%	5,738	6,071	14.0	12.0	10.1	NM	NM	NM	23.8%	5.9%
SailPoint Technologies Hc	51.07	79.6%	4,971	4,971	13.1	12.2	10.5	NM	NM	NM	14.7%	NM
Telos Corporation	34.01	81.3%	2,377	2,284	11.6	7.9	5.6	NM	NM	31.4	60.7%	11.8%
Tenable Holdings, Inc.	41.35	70.7%	4,367	4,085	8.4	7.8	6.6	NM	NM	NM	19.6%	9.5%
	High	96.3%	\$40,276	\$39,492	14.1x	12.3x	23.4x	NA	34.1x	31.4x	60.7%	28.7%
	Median	87.6%	21,123	21,571	11.6	8.1	8.5	NA	32.1	29.0	21.6%	13.9%
	Mean	87.7%	22,089	21,822	10.8	9.3	9.8	NA	32.1	29.5	27.5%	15.9%
	Low	79.2%	4,802	4,947	5.1	4.8	4.5	NA	30.1	28.0	9.4%	5.9%

## Testing, Inspection & Certification Index

	Closing Price	% of 52 Week	Equity Market	Enterprise Value	EV / Revenue Multiples			EV / EBITDA Multiples			2021E Revenue	2021E EBITDA
	30-Jun-2021	High	Cap		LTM	2021P	2022P	LTM	2021P	2022P	Growth	Margin
	Testing, Inspection, and Certification											
SGS SA	\$3,086.94	98.8%	\$23,076	\$26,167	4.0x	3.9x	3.7x	19.7x	16.6x	15.6x	4.2%	23.6%
Intertek Group plc	76.38	85.2%	12,402	13,283	3.5	3.4	3.2	16.7	15.1	13.7	2.6%	22.8%
Bureau Veritas SA	31.63	98.0%	14,440	15,870	2.8	2.7	2.6	15.3	13.7	12.6	2.8%	20.0%
	High	98.8%	\$23,076	\$26,167	4.0x	3.9x	3.7x	19.7x	16.6x	15.6x	4.2%	23.6%
	Median	98.0%	14,440	15,870	3.5	3.4	3.2	16.7	15.1	13.7	2.8%	22.8%
	Mean	94.0%	16,639	18,440	3.4	3.4	3.2	17.2	15.1	14.0	3.2%	22.1%
	Low	85.2%	12,402	13,283	2.8	2.7	2.6	15.3	13.7	12.6	2.6%	20.0%

Source: Capital IQ, equity research reports, market data as of 28-Jul-2021

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# Featured M&A Activity

Date	Target	Buyer/Investor	EV	Summary
11-Jun-21	BUSINESS KEEPER 	 EQS GROUP	\$97M	<ul style="list-style-type: none"> <li>Business Keeper GmbH develops software as a service (SaaS)-based whistleblowing and compliance software</li> </ul>
2-June-21	 FIRE EYE™	 STG SYMPHONY TECHNOLOGY GROUP	\$1,200M	<ul style="list-style-type: none"> <li>FireEye provides hardware, software and services to investigate cybersecurity attacks, protect against malicious software and analyze IT security risks</li> </ul>
1-Jun-21	 NOVETTA	 accenture	\$1,000M	<ul style="list-style-type: none"> <li>Novetta Solutions, LLC provides analytics software and solutions that detect threat and fraud, and protect high value networks for government and commercial enterprises worldwide</li> </ul>
7-Apr-21	 Galvanize	 Diligent (Insight Partners, Clearlake, Blackstone)	\$1,000M	<ul style="list-style-type: none"> <li>Galvanize is the developer of SaaS-based governance, risk management and compliance (GRC) software</li> </ul>
23-Mar-21	 convercent	 OneTrust	ND	<ul style="list-style-type: none"> <li>Convercent, Inc. provides an ethics and compliance cloud platform for enterprises globally</li> </ul>
16-Mar-21	 GEMINI ADVISORY	 Recorded Future (Insight Partners, Pantheon Int.)	\$52M	<ul style="list-style-type: none"> <li>Regemini, Inc doing business as Gemini Advisory develops an application for web cyber threats and fraud intelligence</li> </ul>
19-Feb-21	 Steele	 Diligent (Insight Partners, Clearlake, Blackstone)	\$325M	<ul style="list-style-type: none"> <li>Steele Compliance Solutions, Inc., a compliance intelligence company, provides comprehensive third-party due diligence SaaS solutions</li> </ul>
10-Feb-21	 ALSID	 tenable®	\$98M	<ul style="list-style-type: none"> <li>Alsid SAS designs and develops cybersecurity solutions to protect directory infrastructures</li> </ul>
3-Feb-21	 Digital Defense by HelpSystems	 helpsystems	ND	<ul style="list-style-type: none"> <li>Digital Defense, Inc. provides managed cloud-based information technology security governance, risk management and compliance solutions</li> </ul>
14-Jan-21	 HYTRUST	 ENTRUST	ND	<ul style="list-style-type: none"> <li>HyTrust, Inc., a cloud security automation company, offers administrative control, visibility, auditing and data security for private, hybrid and public clouds</li> </ul>
8-Jan-21	 Kount®	 EQUIFAX	\$640M	<ul style="list-style-type: none"> <li>Kount Inc. provides an AI-driven fraud detection and prevention platform</li> </ul>
7-Jan-21	 StackRox	 Red Hat	ND	<ul style="list-style-type: none"> <li>StackRox, Inc. designs and develops an online threat protection platform/software for containers and web-scale microservices</li> </ul>

Source: Public filings as of 28-Jul-2021, Capital IQ, Pitchbook

# Featured Private Placements

Date	Target	Buyer/Investor	Capital Raised	Summary
12-Jul-21	 compliance & risks	 LUMINATE	ND	<ul style="list-style-type: none"> <li>Compliance &amp; Risks Limited offers market access and product compliance SaaS solution</li> </ul>
23-Jun-21			\$25M	<ul style="list-style-type: none"> <li>Drata Inc. develops a security and compliance automation platform that continuously monitors and collects evidence of a company's security controls, while streamlining compliance workflows to ensure audit readiness</li> </ul>
10-Jun-21			\$120M	<ul style="list-style-type: none"> <li>Compliance Science, Inc. (ComplySci) provides governance, risk management and compliance management solutions to the financial and professional services community</li> </ul>
9-Jun-21			\$150M	<ul style="list-style-type: none"> <li>Aura Company develops SaaS-based security software solutions</li> </ul>
7-Jun-21			\$349M	<ul style="list-style-type: none"> <li>Trulioo Information Services Inc. provides a global identity verification online portal for the online payments industry worldwide</li> </ul>
26-May-21			\$110M	<ul style="list-style-type: none"> <li>Brinqa GRC provides GRC solutions for enterprises</li> </ul>
26-May-21			\$55M	<ul style="list-style-type: none"> <li>eSSential Accessibility Inc. develops a proprietary digital accessibility compliance platform, providing cloud-based compliance solutions that eliminate legal risk</li> </ul>
26-May-21			\$50M	<ul style="list-style-type: none"> <li>Compliancematrix, Inc. develops a cloud-based platform (CMX1) for risk and compliance</li> </ul>
4-May-21			\$50M	<ul style="list-style-type: none"> <li>Vanta Inc. develops an automated security and compliance solution that simplifies tedious processes of preparing for a SOC 2 audit</li> </ul>
4-May-21			\$30M	<ul style="list-style-type: none"> <li>JupiterOne, Inc. develops a cloud native security and governance platform</li> </ul>
30-Mar-21			\$156M	<ul style="list-style-type: none"> <li>Deel, Inc., doing business as Lets Deel, Inc., designs and develops a payroll and compliance platform for businesses</li> </ul>
3-Mar-21			\$175M	<ul style="list-style-type: none"> <li>Snyk Limited develops a cloud native application security platform that enables users to identify, fix and monitor open-source vulnerabilities</li> </ul>

Source: Public filings as of 28-Jul-2021, Capital IQ, Pitchbook

# About ClearSight

ClearSight Advisors is an independent merchant banking firm dedicated to driving the Knowledge Economy by providing world-class M&A and capital raising solutions exclusively to growth-oriented Business Services and Technology companies. ClearSight combines deep market insights across software, services and data. ClearSight Capital Advisors, Inc., a wholly owned subsidiary, is a registered member of FINRA & SIPC. For more information about ClearSight, visit [www.clearsightadvisors.com](http://www.clearsightadvisors.com)



1650 Tysons Boulevard,  
Suite 710  
McLean, Virginia 22102

1350 Avenue of the Americas,  
Suite 1710  
New York, NY 10019

2626 Cole Ave, Suite 700  
Dallas, TX 75204



703.672.3100



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